

Cryptocurrencies: Ready For Institutional Investment?

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Demelza is a junior fund manager at Incrementum AG, and she is responsible for the Crypto Research Report published by Incrementum. As a Ph.D. student at the University of Liechtenstein, Demelza researches the role of cryptocurrency in asset management. Her academic supervisors are Professor Dr. Michael Hanke and the former Chief Economist of the U.S. Commodity Futures Trading Commission (CFTC), Professor Dr. Andrei Kirilenko.



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Mark Valek is a partner of Incrementum, and he is responsible for fund management. Mark studied Business Administration at the Vienna University of Business Administration and has continuously worked in financial markets and asset management since 1999. Previously, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments.



Cryptocurrencies as an Asset Class

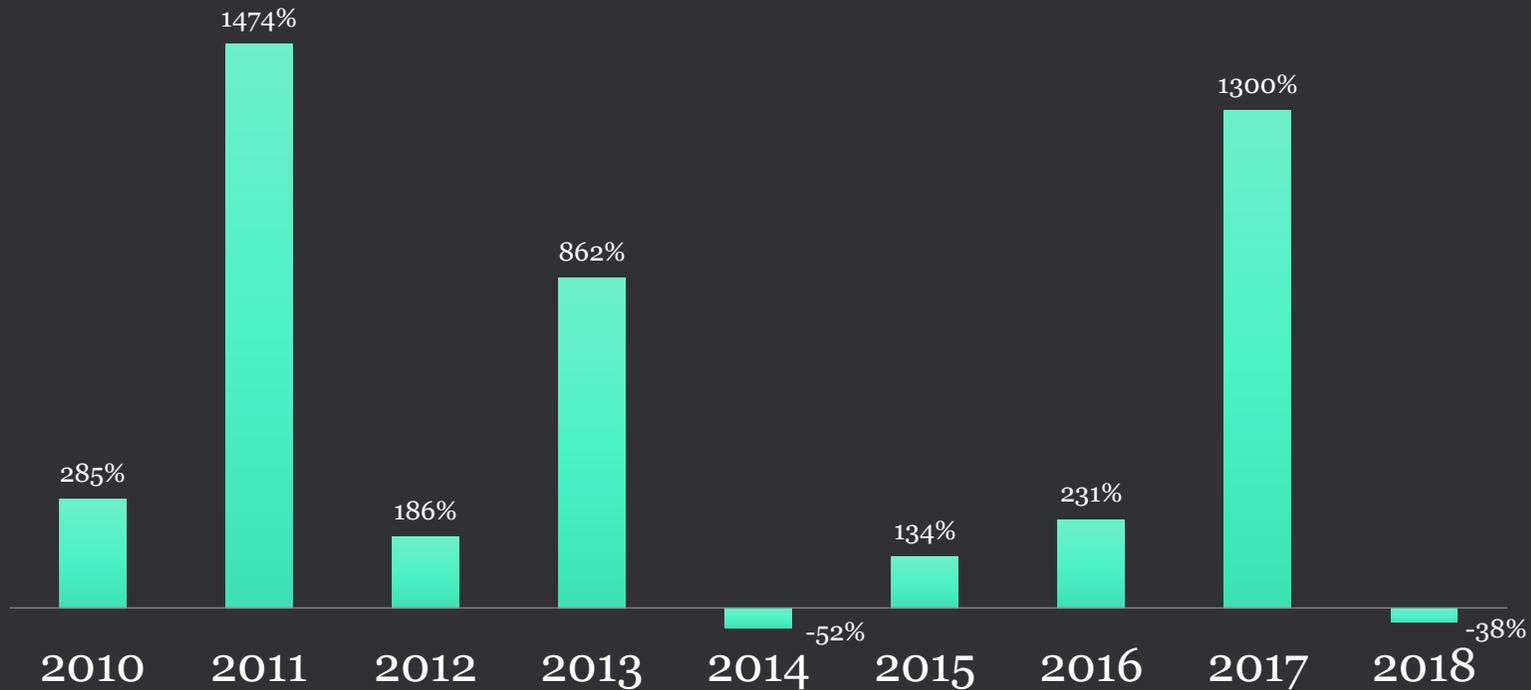
Cryptocurrencies are a new way to trade. According to FINMA guidelines in Switzerland, cryptocurrencies fall into three broad sectors:

- Payment Cryptocurrencies
 - Payment tokens are intended to be used, now or in the future, as a means of payment for acquiring goods or services or as a means of money or value transfer. Cryptocurrencies give rise to no claims on their issuer.
- Utility Cryptocurrencies
 - Utility tokens are tokens which are intended to provide access digitally to an application or service by means of a blockchain-based infrastructure.
- Asset Cryptocurrencies
 - Asset tokens represent assets such as a debt or equity claim on the issuer. Asset tokens promise, for example, a share in future company earnings or future capital flows. In terms of their economic function, therefore, these tokens are analogous to equities, bonds or derivatives. Tokens which enable physical assets to be traded on the blockchain also fall into this category.

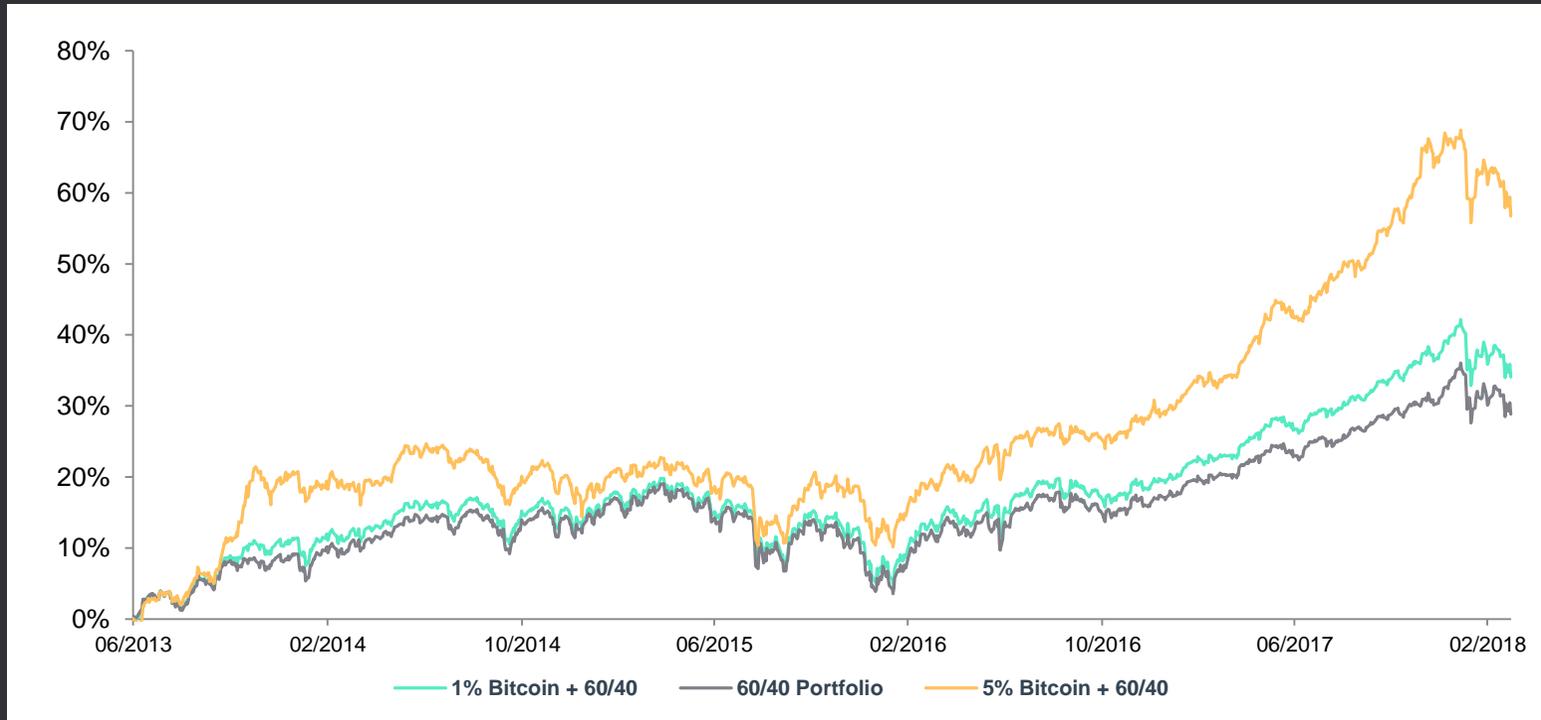


Crypto Asset Performance

Bitcoin Annual Return in USD



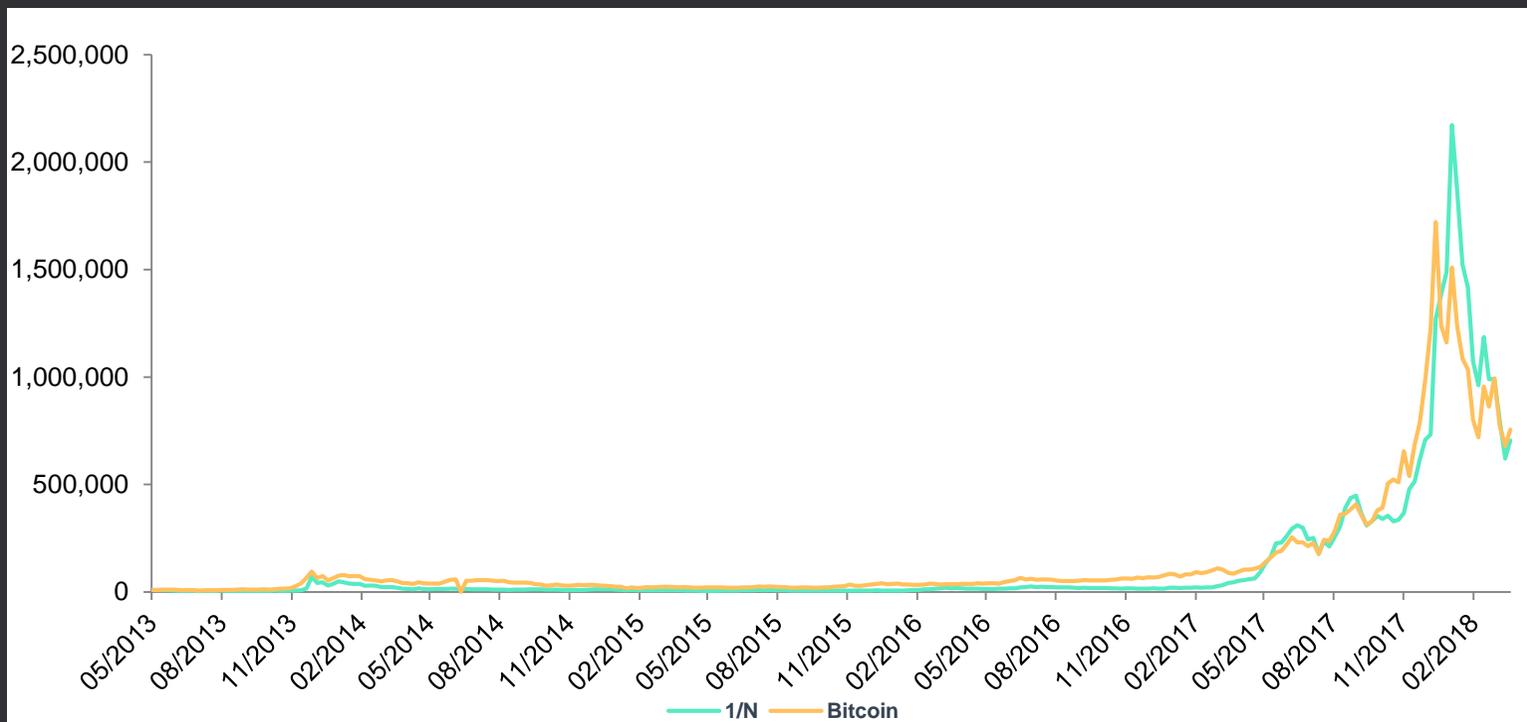
Higher Returns-Lower Risk



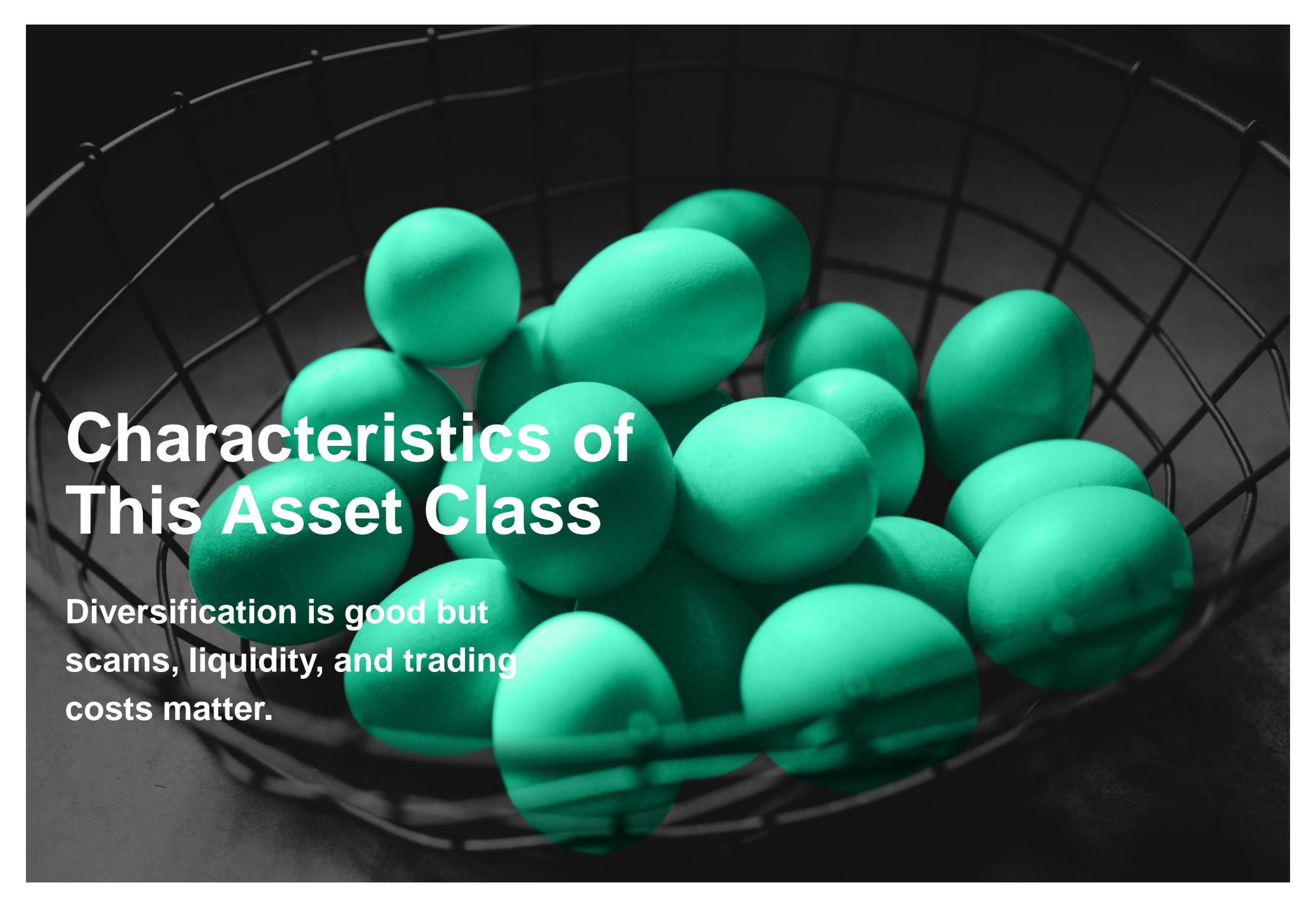
Portfolio	Global 60/40	Global 60/40 + 1% BTC	Global 60/40 + 5% BTC
Cumulative Return	29%	34%	57%
Annual Return	5.64%	6.48%	9.84%
Annual Volatility	7.71%	7.71%	8.64%
Sharpe Ratio	0.73	0.84	1.14
Ratio Improvement	-	15%	56%



Bitcoin Only vs. Naive 1/N



Portfolio	Bitcoin	Top 10 – Equal Weights
Cumulative Return	7451%	8268%
Annual Return	110%	112%
Annual Volatility	1.04%	108%
Sharpe Ratio	1.05	1.03
Ratio Improvement	-	-1.9%

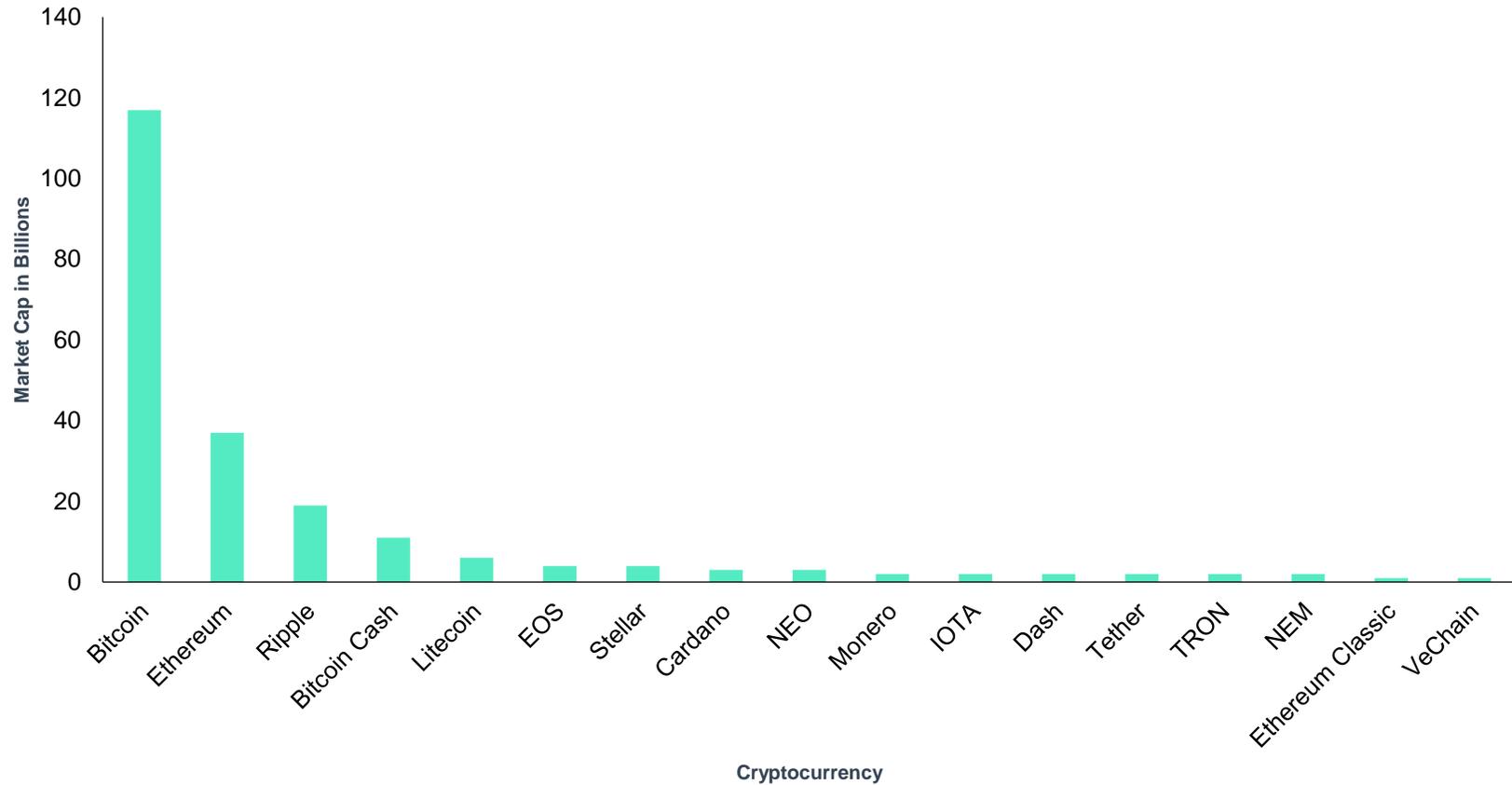
A wire basket filled with green eggs. The basket is made of dark metal wire and is filled with approximately 15-20 bright green, smooth eggs. The background is dark and out of focus.

Characteristics of This Asset Class

Diversification is good but
scams, liquidity, and trading
costs matter.

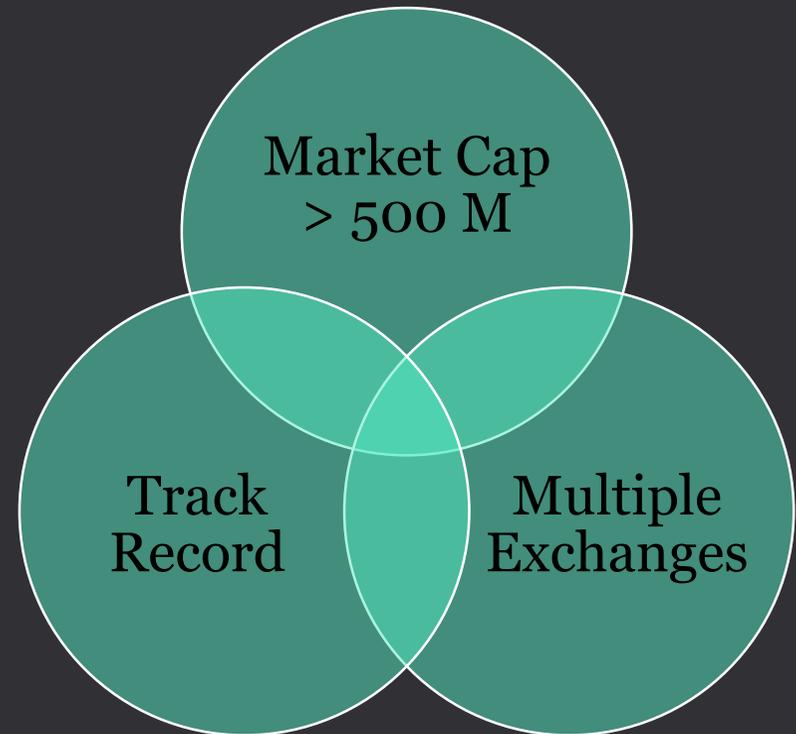
Liquidity Constraints

Cryptocurrencies with Market Caps Over 1 Billion



Investment Universe

- Narrowing the field for institutional-grade cryptocurrencies:
 1. Investments in crypto assets with market capitalization over \$500 million.
 2. Investments in crypto assets that are traded on several exchanges.
 3. Investments in crypto assets that have been on the market for over one year.
- Once the investment universe is defined, eliminate coins that are scams.
- Rebalance strategy should consider high trading costs.



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